

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



40TH DISTRICT AGRICULTURAL ASSOCIATION
YOLO COUNTY FAIR
WOODLAND, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

AUDIT REPORT #08-040
FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006

40TH DISTRICT AGRICULTURAL ASSOCIATION
YOLO COUNTY FAIR
WOODLAND, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Anthony DelMastro

Audit Chief
Assistant Audit Chief
Auditor

AUDIT REPORT NUMBER

#08-040

40TH DISTRICT AGRICULTURAL ASSOCIATION
YOLO COUNTY FAIR
WOODLAND, CALIFORNIA

TABLE OF CONTENTS

| | <u>PAGE</u> |
|---|-------------|
| Independent Auditor's Report..... | 1 |
| Financial Statements..... | 3 |
| Notes to the Financial Statements | 6 |
| Report Distribution | 11 |



CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. DJ Sambucetti, President
Board of Directors
40th DAA, Yolo County Fair
1125 East Street
Woodland, California 95776

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 40th District Agricultural Association (DAA), Yolo County Fair, Woodland, California, as of December 31, 2007 and 2006, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 40th DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

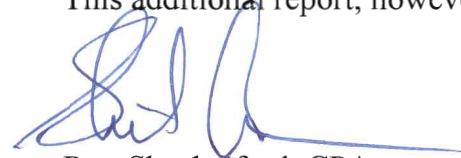
We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 40th DAA, Yolo County Fair, as of December 31, 2007 and 2006, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The 40th DAA, Yolo County Fair has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.



Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #08-040, on the 40th DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 40th DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.



For Ron Shackelford, CPA
Chief, Audit Office

June 13, 2008

**40TH DISTRICT AGRICULTURAL ASSOCIATION
YOLO COUNTY FAIR
WOODLAND, CALIFORNIA**

**STATEMENTS OF FINANCIAL CONDITION
December 31, 2007 and 2006**

| | Account Number | 2007 | 2006 |
|---|---------------------------|----------------------------|----------------------------|
| ASSETS | | | |
| Cash in Bank | 111 - 117 | \$ 525,458 | \$ 419,447 |
| Accounts Receivable, Net | 131-133 | 5,706 | 7,348 |
| Land | 191 | 174,214 | 174,214 |
| Buildings and Improvements, Net | 192 | 1,020,456 | 1,095,811 |
| Equipment, Net | 193 | 30,428 | 6,069 |
| TOTAL ASSETS | | <u>1,756,262</u> | <u>1,702,889</u> |
| LIABILITIES AND NET RESOURCES | | | |
| Liabilities and Other Credits | | | |
| Accounts Payable | 212 | 13,532 | 3,384 |
| Current Portion of LT Debt | 212.5 | 9,305 | - |
| Taxes Payable | 221 - 226 | 4,825 | 5,089 |
| Deferred Income | 228 | 42,591 | 30,291 |
| Guarantee Deposits | 241 | 1,500 | - |
| Compensated Absences Liability | 245 | 48,265 | 68,826 |
| Long Term Debt | 250 | 9,855 | - |
| Total Liabilities and Other Credits | | <u>129,873</u> | <u>107,590</u> |
| Net Resources | | | |
| Reserve for Junior Livestock Auction | 251 | 1,500 | 1,500 |
| Net Resources - Operations | 291 | 399,791 | 317,705 |
| Net Resources - Capital Assets, Less Related Debt | 291.1 | 1,225,098 | 1,276,094 |
| Total Net Resources Available | | <u>1,626,389</u> | <u>1,595,299</u> |
| TOTAL LIABILITIES AND NET RESOURCES | | <u>\$ 1,756,262</u> | <u>\$ 1,702,889</u> |

**40TH DISTRICT AGRICULTURAL ASSOCIATION
YOLO COUNTY FAIR
WOODLAND, CALIFORNIA**

STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY
Years Ended December 31, 2007 and 2006

| | <u>Account Number</u> | <u>2007</u> | <u>2006</u> |
|---|---------------------------|----------------------------|----------------------------|
| REVENUE | | | |
| State Apportionments | 312 | \$ 150,000 | \$ 150,000 |
| Major Maintenance Projects | 319 | 40,000 | 41,716 |
| Millennium Funding | 340 | 9,116 | 6,709 |
| Commercial Space | 415 | 80,916 | 75,186 |
| Carnival | 421 | 170,301 | 165,721 |
| Concessions | 422 | 166,736 | 152,938 |
| Exhibits | 430 | 8,694 | 6,994 |
| Horse Show | 440 | 31,508 | 23,419 |
| Attractions - Fairtime | 460 | 103,121 | 100,410 |
| Miscellaneous Fair | 470 | 61,919 | 72,729 |
| Miscellaneous Non Fair | 47005 | 4,017 | - |
| Non-Fair Revenue | 480 | 274,626 | 228,175 |
| Prior Year Adjustment | 490 | 6,978 | 1,110 |
| Other Revenue | 495 | 20,149 | 40,092 |
| Total Revenue | | <u>1,128,081</u> | <u>1,065,199</u> |
| EXPENSES | | | |
| Administration | 500 | 312,809 | 305,510 |
| Current Year Bad Debt Expenses | 514 | - | 4,500 |
| Maintenance and Operations | 520 | 393,945 | 397,117 |
| Publicity | 540 | 10,702 | 6,606 |
| Attendance | 560 | 78,292 | 75,932 |
| Miscellaneous Fair | 570 | 23,119 | 30,680 |
| Miscellaneous Non Fair | 57005 | 4,392 | 55 |
| Premiums | 580 | 26,272 | 32,280 |
| Exhibits | 630 | 37,296 | 35,536 |
| Horse Show | 640 | 33,747 | 25,334 |
| Attractions - Fairtime | 660 | 63,815 | 61,667 |
| Equipment | 723 | - | 12,831 |
| Prior Year Adjustments | 800 | (3,253) | 1,403 |
| Cash Over/Short from Ticket Sales | 850 | 1 | (51) |
| Depreciation Expense | 900 | 84,927 | 81,282 |
| Disposition of Fixed Assets | 920 | - | 5,720 |
| Other Operating Expense | 945 | 30,926 | 6,709 |
| Total Expenses | | <u>1,096,990</u> | <u>1,083,111</u> |
| RESOURCES | | | |
| Net Change - Income / (Loss) | | 31,090 | (17,912) |
| Resources Available, January 1 | | 1,595,299 | 1,613,211 |
| Resources Available, December 31 | | <u>\$ 1,626,389</u> | <u>\$ 1,595,299</u> |

**40TH DISTRICT AGRICULTURAL ASSOCIATION
YOLO COUNTY FAIR
WOODLAND, CALIFORNIA**

**STATEMENTS OF CASH FLOWS - REGULATORY BASIS
Years Ended December 31, 2007 and 2006**

| | <u>2007</u> | <u>2006</u> |
|--|---------------------------------|---------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Excess of Revenue Over Expenses (Expenses Over Revenue) | \$ 31,090 | \$ (17,912) |
| Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities: | | |
| (Increase) Decrease in Accounts Receivable | 1,642 | 28,077 |
| Increase (Decrease) in Deferred Income | 12,300 | 26,888 |
| Increase (Decrease) in Taxes Payable | (264) | 2,972 |
| Increase (Decrease) in Current Portion of LT Debt | 9,305 | - |
| Increase (Decrease) in Accounts Payable | 10,147 | (567) |
| Increase (Decrease) in Compensated Absence Liability | (20,562) | 13,956 |
| Increase (Decrease) in Guarantee Deposits | 1,500 | - |
| Total Adjustments | <u>14,070</u> | <u>71,326</u> |
| Net Cash Provided (Used) by Operating Activities | <u>45,160</u> | <u>53,414</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| (Increase) Decrease in Buildings & Improvements | 75,356 | 37,880 |
| (Increase) Decrease in Equipmen | <u>(24,359)</u> | <u>9,649</u> |
| Net Cash Provided (Used) by Investing Activities | <u>50,997</u> | <u>47,529</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Increase (Decrease) in Long-Term Liability | <u>9,855</u> | <u>-</u> |
| Net Cash Provided (Used) by Financing Activities | <u>9,855</u> | <u>-</u> |
| NET INCREASE (DECREASE) IN CASH | 106,012 | 100,943 |
| Cash at Beginning of Year | 419,447 | 318,504 |
| CASH AT END OF YEAR | <u><u>\$ 525,458</u></u> | <u><u>\$ 419,447</u></u> |

**40TH DISTRICT AGRICULTURAL ASSOCIATION
YOLO COUNTY FAIR
WOODLAND, CALIFORNIA**

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007 and 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The 40th District Agricultural Association (DAA) was formed on June 30, 1933, for the purpose of sponsoring, managing, and conducting the Yolo County Fair each year in Woodland, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAA's to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the

reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are capitalized and depreciated. Buildings and improvements are depreciated over a period of 30 years, and purchases of equipment are depreciated over five years. Amounts spent on repair and maintenance costs are expensed as incurred by the Fair. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. Amounts spent on projects that have not been placed in service are recorded in Account #190, Construction-in-Progress and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Sales Taxes – The State of California imposes a sales tax of 7.25% on all of the DAA's sales of merchandise. The DAA collects that sales tax from customers and remits the entire amount to the state Board of Equalization.

The DAA's accounting policy is to exclude the tax collected and remitted to the State from revenues and cost of sales.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

NOTE 2 CASH AND CASH EQUIVALENTS

The following list of cash and cash equivalents were held by the DAA as of December 31:

| | <u>2007</u> | <u>2006</u> |
|---------------------------------|-------------------|-------------------|
| Petty Cash | \$ 1,060 | \$ 500 |
| Cash in Bank - Operating | 328,654 | 220,631 |
| Cash in Bank - Premium | 6,276 | 6,426 |
| Cash in Bank - Payroll | 20,633 | 19,164 |
| Cash in Bank – Time Deposits | <u>168,835</u> | <u>172,726</u> |
| Total Cash and Cash Equivalents | <u>\$ 525,458</u> | <u>\$ 419,447</u> |

NOTE 3 ACCOUNTS RECEIVABLE

The DAA is required to record an allowance for doubtful accounts based on estimates of collectibility.

| | <u>2007</u> | <u>2006</u> |
|---------------------------------|-----------------|-----------------|
| Accounts Receivable | \$ 16,406 | \$ 18,048 |
| Allowance for Doubtful Accounts | <u>(10,700)</u> | <u>(10,700)</u> |
| Accounts Receivable - Net | <u>\$ 5,706</u> | <u>\$ 7,348</u> |

NOTE 4 PROPERTY AND EQUIPMENT

Buildings and improvements, and equipment at December 31, 2007 and 2006 consist of the following:

| | <u>2007</u> | <u>2006</u> |
|--------------------------------|--------------------|---------------------|
| Building & Improvements | \$2,978,171 | \$2,978,171 |
| Less: Accumulated Depreciation | <u>(1,957,715)</u> | <u>(1,882,360)</u> |
| Building & Improvements - Net | <u>\$1,020,456</u> | <u>\$ 1,095,811</u> |

| | | |
|--------------------------------|------------------|------------------|
| Equipment | \$ 439,382 | \$ 411,171 |
| Less: Accumulated Depreciation | <u>(408,954)</u> | <u>(405,102)</u> |
| Equipment - Net | <u>\$ 30,428</u> | <u>\$ 6,069</u> |

NOTE 5 **LONG-TERM DEBT**

The DAA has entered into a long-term capital lease agreement with John Deere to finance a John Deere Tractor Loader. The terms of the agreement are as follows:

John Deere Loan:

| | |
|-------------------------------|------------------|
| Loan Amount | \$ 30,494 |
| First Payment Date | January 23, 2007 |
| Payment Amount | \$ 847 |
| Duration of Loan | 36 Months |
| Interest Rate | 5.75% |
| Total Outstanding at 12/31/07 | \$ 19,160 |
| Current Portion at 12/31/07 | \$ 9,305 |
| Long-Term Portion at 12/31/07 | \$ 9,855 |

NOTE 6 **RETIREMENT PLAN**

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in

lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 7 **RECLASSIFICATION**

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

**40TH DISTRICT AGRICULTURAL ASSOCIATION
YOLO COUNTY FAIR
WOODLAND, CALIFORNIA**

REPORT DISTRIBUTION

| <u>Number</u> | <u>Recipient</u> |
|---------------|---|
| 1 | President, 40th DAA Board of Directors |
| 1 | Chief Executive Officer, 40th DAA |
| 1 | Director, Division of Fairs and Expositions |
| 1 | Chief Counsel, CDFA Legal Office |
| 1 | Chief, CDFA Audit Office |

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



40TH DISTRICT AGRICULTURAL ASSOCIATION
YOLO COUNTY FAIR
WOODLAND, CALIFORNIA

MANAGEMENT REPORT #08-040

YEAR ENDED DECEMBER 31, 2007

40TH DISTRICT AGRICULTURAL ASSOCIATION
YOLO COUNTY FAIR
WOODLAND, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2007

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Anthony DelMastro

Audit Chief
Assistant Audit Chief
Auditor

MANAGEMENT REPORT NUMBER
#08-040

TABLE OF CONTENTS

| | <u>PAGE</u> |
|--|-------------|
| MANAGEMENT LETTER..... | 1 |
| REPORTABLE CONDITIONS | 3 |
| Individuals Living on the Fairgrounds | 3 |
| Leave Liability | 4 |
| NON-REPORTABLE CONDITIONS | 5 |
| Opportunity Purchase | 5 |
| Accounting for Fixed Assets | 5 |
| Carnival Revenue | 5 |
| Time Records | 6 |
| Unrecorded Liabilities | 6 |
| Board Minutes | 7 |
| Entertainment Taxation Withholding | 7 |
| Independent Contractors | 7 |
| DISTRICT AGRICULTURAL ASSOCIATION’S RESPONSE | 9 |
| CDFA EVALUATION OF RESPONSE..... | 11 |
| DISPOSITION OF AUDIT RESULTS..... | 12 |
| REPORT DISTRIBUTION | 13 |



CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. D.J. Sambucetti, President
Board of Directors
40th DAA, Yolo County Fair
1125 East Street
Woodland, California 95776

In planning and performing our audit of the financial statements of the 40th District Agricultural Association (DAA), Yolo County Fair, Woodland, California, for the year ended December 31, 2007, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Yolo County Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 40th DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 40th DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute,



assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 40th DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 40th DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 40th DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 40th DAA and compliance with state laws and regulations, we identified two areas with reportable conditions that are considered weakness in the Fair's operations: individuals living on the fairgrounds, and leave liabilities. We have provided five recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 40th DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

REPORTABLE CONDITIONS

INDIVIDUALS LIVING ON THE FAIRGROUNDS

Our prior year audit report identified that an employee of the Fair entered into a rental agreement with their father to live in an apartment located on the fairgrounds. In lieu of the employee's father paying rent, the Fair allowed the employee's father to perform night watchman duties and after-hours emergency services. The long-term agreement covered a five-year period of August 2002 through August 2007.

In 2006, the Fair stated that they obtained two market values, \$636 and \$705 per month for the apartments from a local property management firm. Based on our analysis of the market values obtained by the Fair stated above, the Fair should comply with the contract bidding requirements since the Fair entered into a personal service contract with an annual cost between \$7,632 (12 months multiplied by \$636/monthly rate) and \$8,460 (12 months multiplied by \$705/monthly rate) respectively. Since the annual cost of the benefit/income to the independent contractor exceeds \$5,000, the contract must be either formally bid, or awarded using the Alternative Bid Process pursuant to Fairs & Expositions (F&E) contract manual and government code section 14838.5.

As of August 2007, the Fair entered into a new multi-year rental contract for the apartment located on the fairgrounds for \$300 a month. The long-term rental contract covered a three year period, August 2007 through August 2010. Based on our audit of the new rental contract our office noted that the Fair did not obtain approval of the new multi-year contract pursuant to F&E's contract manual. Secondly, although the Fair issued a 1099-MISC for the amount of \$3,600 for 2007, the Fair did not utilize form 1099-B, Proceeds from Broker and Barter Exchange Transactions, to report the fair market value of the rent-free lodging as miscellaneous income. The IRS requires this form be prepared any time services are exchanged through a barter exchange. Lastly, based on the fair market values stated in 2006, for \$636 and \$705 per month, it appears that the Fair did not correctly charge for the rental of the apartment; the Fair charged \$300 per month according to the rental contract. Based on the fair market values state above, we noted a variance of \$236 and \$405 per month. The Fair should research this variance, as it may be considered a gift of value to an individual and such gifts are considered an inappropriate use of state funds.

Recommendations

- 1. The Fair should comply with competitive guidelines by ensuring future contracts for the night watchman and after-hours emergency services are either formally bid, or awarded using the Alternative Bid Process pursuant to F&E's contract manual and government code section 14838.5.*
- 2. The Fair should obtain approval from F&E of any multi-year contract in accordance with F&E's contract manual.*

Management Report #08-040**Woodland, California**

3. *The Fair should prepare and send Form 1099-B, Proceeds from Broker and Barter Exchange Transactions, to report the value of providing an individual rent-free housing to the IRS.*
4. *The Fair should refrain from gifting anything of value to an individual, in accordance with Article XVI, Section 6, of the State Constitution.*

LEAVE LIABILITY

The Fair allowed one employee to exceed the maximum hours allowed for accrual for vacation. This employee had a year-end vacation balance of 869.8 hours. According to the employee's related bargaining unit, the maximum vacation balance that may be accumulated is 640 hours. In addition to not complying with the terms and conditions specified within the bargaining unit, allowing an employee to maintain excessive leave balances represents a considerable cash burden should the employee separate from the Fair.

Recommendation

5. *The Fair should not allow employees to exceed the maximum accrual of 640 hours in a calendar year. The Fair should reduce their leave liability by encouraging employees to take time off, thereby reducing their vacation balances.*

NON-REPORTABLE CONDITIONS

OPPORTUNITY PURCHASE

The Fair made one opportunity purchase during 2007 for a John Deere tractor totaling \$28,702. The Fair failed to document that opportunity purchases meet or beat the State price. Opportunity purchases allow the DAA's to purchase commodities from any source provided it meets or beats that available through the state-purchasing program. Therefore, to claim an opportunity purchase, the Fair must demonstrate and provide copies of actual price information or exemption justification when necessary. Merely stating the local price was equivalent to or less than that available through the state-purchasing program does not sufficiently meet the documenting criteria. This was a prior year finding.

Recommendation

The Fair should follow the proper guidelines when making and claiming an opportunity purchase by attaching all supporting documentation and bids demonstrating how the opportunity purchase meet or beat the State Price.

ACCOUNTING FOR FIXED ASSETS

Based on examination of the Fair's property ledger (P/L) for equipment, our office noted that the Fair removed an item from the P/L, one 1992 Dodge Van totaling \$5,720, without adjusting the associated accumulated depreciation.

As a result of the above, the P/L balance for account #193.1 – Accumulated Depreciation, Equipment, does not agree to the general ledger (G/L) balance. Accumulated depreciation is overstated by \$5,720 based on CDFA's calculation. Total balances for account #193.1 – Accumulated Depreciation, Equipment, per the depreciation schedule should agree and support the G/L balance.

Recommendations

The Fair should update its property ledger on a monthly basis and reconcile amounts in the property ledger to the general ledger. In the future, this reconciliation should be performed prior to preparing the year-end statement of operations.

The Fair should perform a reconciliation between the general ledger and the depreciation schedule to ensure that the correct depreciation is reflected in the general ledger.

CARNIVAL REVENUE

The Fair exposed itself to loss by not having both a representative of the Fair and the carnival contractor sign the carnival settlement sheet. The APM requires both the Fair and the contractor to sign the settlement sheet. These signatures verify that the settlement sheet is reviewed and approved by both parties prior to any final monetary settlement.

Management Report #08-040

Woodland, California

In addition, the Fair did not correctly receipt and deposit \$44,000 of carnival revenue. The Fair instead used carnival revenue as a change fund for the ATM machine. Although carnival revenue was accounted for and eventually deposited, good accounting controls dictate that that revenue be receipted and deposited; this helps minimize the possibility of any misappropriation of funds.

Lastly, according to the carnival contract the Fair receives a portion of pre-sale ticket revenue. The breakdown of advance ticket books sales for the carnival contractor and the Fair are negotiated each year. For 2007, the Fair received \$2.45 and the carnival contractor \$11.55 of the total advance ticket book price of \$14. The Fair failed to amend the contract for 2007, noting the changes and agreement with signatures to the advance ticket breakdown.

Recommendations

The Fair should ensure the carnival settlement sheet has been reviewed and signed by both parties to alleviate any discrepancies that may later arise.

The Fair should receipt and then deposit carnival revenue intact, and should refrain from using carnival revenue as a source of change fund.

The Fair should obtain an amendment to the contract with signatures from the Fair and carnival contractor formally certifying the new agreement for the breakdown of advance ticket sales.

TIME RECORDS

The Fair's employees did not complete time card, STD 634, for the entire year. Secondly, we noted in some instances employees used vacation or other time-off credits without completing a STD 634. A time card should be maintained with signatures from the employee and approving supervisor whether time-off is taken or not. According to the Accounting Procedures Manual (APM) section 4.1, the Fair should maintain time cards for all employees to ensure compliance with labor laws related to overtime and paid leaves. They must be reviewed and signed by a supervisor and time cards should show hours worked and leave taken.

Recommendation

The Fair should comply with APM and all employees are required to maintain time cards to show time worked and vacation taken with the appropriate supervisor approval.

UNRECORDED LIABILITIES

The Fair did not accrue all known payables in the general ledger at year-end. After examination of the cash disbursements journal for January 2008, we noted that the fair had not properly accrued liabilities for year-end 2007 totaling \$6,406. All known payables, including estimates of telephone, gas, retirement, and electric bills for the month of December, should be included. The purpose of accruing payables at fiscal year-end is to reflect expenses in the proper year.

Recommendation

Accounts payable at year-end should include all known payables, including estimates of telephone, gas, and electric bills. Such estimates should be made even though billings have not yet been received.

BOARD MINUTES

An analysis of the Fair's Board of Director's Meeting Minutes identified that the Board President did not sign the minutes indicating a formal certification of the actual activity discussed in a public forum. Having the Board President examine and approve the minutes helps improve controls and mitigates the possibility of any changes being made to minutes after the fact.

Recommendation

The Fair should ensure the Board President formally certify the minutes of all Board of Director's Meetings by signing and dating the related minutes after a review has taken place. This process serves dual purposes as it (i) helps to ensure the minutes accurately reflect the activities discussed during the public forum, and (ii) mitigates the possibility for changes to be made to the minutes.

ENTERTAINMENT TAXATION WITHHOLDING

The Fair did not complete and submit a list of prospective out-of-state entertainers, who will receive \$1,500 or more, to the Franchise Tax Board (FTB), Withholding at Source Unit. The submission of this list will ensure proper taxation withholdings of entertainers/performing entities by the Fair when required by FTB.

Recommendation

The Fair should complete and submit a list of prospective entertainers who will receive \$1,500 or more to FTB, Withholding at Source Unit to ensure proper taxation withholdings.

INDEPENDENT CONTRACTORS

A review of the Standard 210 Agreements revealed that the Fair did not complete the required Employment Development Department (EDD) DE 542 form for independent contractors. The Fair is required to report to EDD within 20 days of paying or contracting for \$600 or more with an independent contractor in any calendar year by submitting Form DE 542. According to EDD, any business or government entity that is required to file a federal Form 1099-MISC for services received from an independent contractor is required to report specific independent contractor information to EDD. This information is used by EDD to locate parents who are delinquent in their child support obligations.

Recommendation

The Fair should comply with the State Senate Bill 542 that requires entities to report specified information to EDD on independent contractors within 20 days of either making payments totaling \$600 or more or entering into a contract in any calendar year, whichever is earlier, to avoid penalty for failure to comply within the required timeframe.

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE



State of California

40th District Agricultural Association

October 8, 2008

CDFA Audit Office
1220 N Street, Room 344
Sacramento, Ca 95814

Subject: Written Response to 2007 Audit

Reportable Conditions

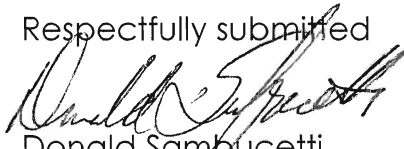
INDIVIDUALS LIVING ON THE FAIRGROUNDS:

1. We have amended the lease for Mr. Wunder, His rent Will be \$600.00 per month beginning January 1, 2009. This amount is a reasonable market value in this area. He is no longer working as night watchman. He is volunteering his after-hours time.
2. When Lease comes up for renewal, we will obtain approval from F & E if a multi-year contract is done.
3. Fair will file the proper 1099 forms at the end of 2008

LEAVE LIABILITY:

1. The employee in question is me. As CEO I am no longer represented by a union. There were extenuating circumstances that created this large amount of vacation. It will still be high during 2008.
2. Now that I am CEO I have put the right people in place that I feel I am able take time off and my hours will be greatly reduced by the end of 2009.

Respectfully submitted


Donald Sambucetti
Board President

 10/10/08
Rita Moore
CEO

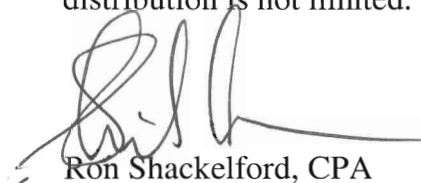
CDFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the 40th DAA – Yolo County Fair, for their review and response. We have reviewed the response and it satisfactorily addresses the findings contained in this report.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between June 2, 2008 and June 13, 2008. My staff met with management on March 29, 2008 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.



For Ron Shackelford, CPA
Chief, Audit Office

June 13, 2008

REPORT DISTRIBUTION

| <u>Number</u> | <u>Recipient</u> |
|---------------|---|
| 1 | President, 40th DAA Board of Directors |
| 1 | Chief Executive Officer, 40th DAA |
| 1 | Director, Division of Fairs and Expositions |
| 1 | Chief Counsel, CDFA Legal Office |
| 1 | Chief, CDFA Audit Office |